

APR 23 2002

STATE OF ARIZONA  
DEPARTMENT OF INSURANCEDEPT. OF INSURANCE  
BY CB

In the Matter of:

**FARMERS INSURANCE COMPANY OF ARIZONA,**

NAIC #21598,

Respondent.

Docket No. 02A-087-INS

CONSENT ORDER

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of Farmers Insurance Company of Arizona ("Farmers"). The Report of Examination of the Market Conduct Affairs of Farmers, dated October 1, 1999 alleges that Farmers has violated A.R.S. §§ 20-443, 20-263, 20-385, 20-465, and 20-2110.

Farmers wishes to resolve this matter without formal adjudicative proceedings. Farmers admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order. The parties agree, subject to paragraph 5 of the Consent to Order, and subject to any actions the Department may take that are necessary to ensure compliance with this Order, that this Order represents a full and complete resolution of all of the issues that were the subject of this examination.

**FINDINGS OF FACT**

1. Farmers is authorized to transact property and casualty insurance pursuant to Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of Farmers. The on-site examination covered the time period from October 1, 1995 through September 30, 1998, and was concluded on October 1,

1 1999. Based on the findings the Examiners prepared the "Report of Examination of  
2 the Market Conduct Affairs of Farmers," dated October 1, 1999.

3 3. The Examiners reviewed 100 new and 100 renewal personal automobile  
4 policies underwritten by the Company during the time frame of the Examination and  
5 found as follows:

6 a. Farmers failed to apply filed rates and rules in the premium  
7 determination of 21 policies.

8 b. Applied accident surcharges for accidents not caused by or  
9 significantly contributed by the insured, on 13 policies.

10 c. Failed to file with the Department the service charges included in  
11 the premium billing notices of the Standard Billing Plan.

12 4. The Examiners reviewed 200 of 621,419 new and renewal homeowners  
13 policies underwritten by the Company during the time frame of the examination and  
14 found that Farmers failed to apply filed rates and rules in the premium determination of  
15 15 policies.

16 5. The Examiners reviewed an unknown number of forms and letters used  
17 by the Company during the time frame of the examination and found that Farmers  
18 used a "Letter 63" that was sent to a canceled or non-renewed personal automobile  
19 insurance and homeowner's insurance policyholders by the local underwriting office  
20 that failed to contain a compliant Summary of Rights.

21 6. The Examiners reviewed 374 of 85,782 homeowner policies that were  
22 canceled or non-renewed by the Company during the time frame of the examination  
23 and found as follows:  
24  
25



a. Farmers failed to comply with the provisions of its filed homeowner policy in the cancellation of 67 policies, by failing to provide a 30 day advance notice of cancellation for nonpayment of premium in the Standard Billing Plan.

b. Farmers failed to comply with the provisions of its filed homeowner policy in the cancellation of 31 policies, by failing to provide a 30 day advance notice of cancellation for nonpayment of premium in the Prematic Monthly Pay Plan.

7. The Examiners reviewed 100 first-party automobile total loss claims paid by the Company during the time frame of the examination and found that Farmers failed to include all sales taxes and license fees in the settlement of one first-party claim.

8. The Examiners reviewed 50 third-party automobile total loss claims closed by the Company during the time frame of the examination and found that Farmers failed to provide documentation that deductions from ACV for depreciation and betterment were appropriate in amount in the settlement of one third-party claim.

9. Farmers overcharged 7 policyholders \$222.40. Farmers underpaid two claimants \$76.05.

## CONCLUSIONS OF LAW

1. Farmers violated A.R.S. § 20-385(A) by failing to determine premiums based on its filed rates and rules.

2. Farmers violated A.R.S. §§ 20-385(A) and 20-465(A) by failing to file the service charges included with the premium notices in the Standard Billing Plan with the Department.

3. Farmers violated A.R.S. § 20-263 by applying accident surcharges to personal automobile policies for accidents not caused by or significantly contributed by the insureds, meaning more than 50 percent at fault.

4. Farmers violated A.R.S. § 20-2110(A) by failing to provide a compliant Summary of Rights in the event of an adverse underwriting decision.

5. Farmers violated A.R.S. § 20-443(1) by failing to comply with the provisions of its filed homeowners policy by failing to provide a 30-day advance notice of intent to nonrenew homeowner coverage for non-payment.

6. Grounds exist for the entry of the following Order, in accordance with A.R.S. §§ 20-220 and 20-2117.

## ORDER

**IT IS HEREBY ORDERED THAT:**

1. Farmers Insurance Company of Arizona shall:

a. File rates and rules with the Department for personal lines coverages.

b. Comply with filed rates and rules, in the issuance of personal lines policies.

c. File with the Department service charges included in premium billing notices in the Standard Billing Plan.

d. Not apply accident surcharges to personal automobile policies for accidents not caused by or significantly contributed by the insured.

e. Provide the applicant or insured with a Summary of Rights in the event of an adverse underwriting decision.

f. Comply with provisions of its filed homeowner policy by providing the specified number of days advance notice for cancellations and nonrenewals for non-payment.

2. Within 90 days of the filed date of this Order, Farmers shall submit written action plans to the Arizona Department of Insurance, for approval, evidence that



1 corrections have been implemented and communicated to the appropriate personnel,  
2 regarding the issues outlined in Paragraph 1 of the Order section of this Consent  
3 Order. Evidence of corrective action and communication thereof includes, but is not  
4 limited to, memos, bulletins, E-mails, correspondence, procedures manuals, print  
5 screens, and training materials.

6 3. Within 90 days of the filed date of this Order, Farmers shall refund the  
7 amount of \$222.40, plus interest at the rate of ten per cent per annum, calculated from  
8 the date of the overcharge to the date of the refund, to the seven insureds listed in  
9 Exhibit A of this Order.

10 4. Within 90 days of the filed date of this Order, Farmers shall pay the  
11 amount of \$76.05, plus interest at the rate of ten per cent per annum, calculated from  
12 the date the claim was received by the Company, to the date of the payment, to the  
13 two claimants listed in Exhibit B of this Order.

14 5. Each payment made pursuant to paragraphs 3 and 4 above shall include  
15 a letter to the insured in a form previously approved by the Director. A list of  
16 payments, giving the name and address of each party paid, the amount of the  
17 payment, the amount of interest paid, and the date of payment, shall be provided to  
18 the Department within 90 days of the filed date of this Order.

19 6. The Department shall be permitted, through authorized representatives,  
20 to verify that Farmers has complied with all provisions of this Order.

21 7. Farmers shall pay a civil penalty of \$10,500.00 to the Director for deposit  
22 in the State General Fund in accordance with A.R.S. §§ 20-220(B). The civil penalty  
23 shall be provided to the Market Conduct Examinations Section of the Department prior  
24 to the filing of this Order.

8. The Report of Examination of the Market Conduct Affairs of Farmers as of October 1, 1999, including the letter submitted in response to the Report of Examination, shall be filed with the Department, upon the filing of this Order.

DATED at Phoenix, Arizona this 22<sup>nd</sup> day of April, 2002.

  
Charles R. Cohen  
Director of Insurance

**EXHIBIT A**

**Personal Automobile Premium Refunds**

Policy Number	Amount Due Insured
14621-49-29	\$10.00
14772-85-26	\$16.60
14441-26-19	\$5.80
<b>TOTAL</b>	<b>\$32.40</b>

**Homeowners Policy Premium Refunds**

Policy Number	Amount Due Insured
909462394	\$11.00
910924982	\$84.00
911517700	\$8.00
913417725	\$87.00
<b>TOTAL</b>	<b>\$190.00</b>

**EXHIBIT B**

**Personal Automobile Claim Payments**

Claim Number	Amount Due Insured
K4-079762	\$20.00
A2-98974	\$56.05
<b>TOTAL</b>	<b>\$76.05</b>



**CONSENT TO ORDER**

1. Farmers Insurance Company of Arizona has reviewed the foregoing Order.

2. Farmers Insurance Company of Arizona admits the jurisdiction of the Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and consents to the entry of the Conclusions of Law and Order.

3. Farmers Insurance Company of Arizona is aware of the right to a hearing, at which it may be represented by counsel, present evidence, and cross-examine witnesses. Farmers Insurance Company of Arizona irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. Farmers Insurance Company of Arizona states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. Farmers Insurance Company of Arizona acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

6. Bennett L. Katz, who holds the office of AVP & Chief Compliance Officer of Farmers Insurance Company of Arizona, is authorized to enter into this Order for it and on its behalf.

**FARMERS INSURANCE COMPANY of ARIZONA**

4/10/02  
Date

By



Farmers Group, Inc., dba Farmers Insurance Underwriting  
Association, attorney-in-fact for  
Farmers Insurance Company of Arizona



**COPY of the foregoing mailed/delivered**

This 23rd day of April, 2002, to:

Sara Begley  
Deputy Director  
Mary Butterfield  
Assistant Director  
Consumer Affairs Division  
Paul J. Hogan  
Chief Market Conduct Examiner  
Deloris E. Williamson  
Assistant Director  
Rates & Regulations Division  
Steve Ferguson  
Assistant Director  
Financial Affairs Division  
Nancy Howse  
Chief Financial Examiner  
Alexandra Shafer  
Assistant Director  
Life & Health Division  
Terry L Cooper  
Fraud Unit Chief

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Bennett Katz, Assistant Vice President  
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